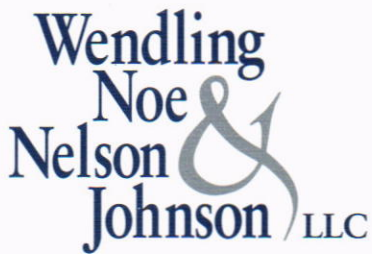


FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1  
D/B/A HANOVER HOSPITAL  
DECEMBER 31, 2017 AND 2016

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Trustees  
Washington County Hospital District No. 1  
d/b/a Hanover Hospital

We have audited the accompanying financial statements of the business-type activity of Washington County Hospital District No. 1 d/b/a Hanover Hospital (the Hospital), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Except for the matter described in the "Basis for Disclaimer of Opinion on the Discretely Presented Component Unit" paragraph, we believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### **Basis for Disclaimer of Opinion on the Discretely Presented Component Unit**

The financial statements of the discretely presented component unit, Washington County Health Care Foundation (the Foundation), have not been audited, and we were not engaged to audit the Foundation's financial statements as part of our audit of the Hospital's basic financial statements. The Foundation's financial activities are included in the Hospital's financial statements as the only discretely presented component unit.

### **Disclaimer of Opinion**

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Discretely Presented Component Unit" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the discretely presented component unit of Washington County Hospital District No. 1 d/b/a Hanover Hospital. Accordingly, we do not express an opinion on these financial statements.

### **Unmodified Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Washington County Hospital District No. 1 d/b/a Hanover Hospital, as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Uncertainty Regarding Going Concern**

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in Note B to the financial statements, the Hospital's history of operating losses and decreases in net position and minimal days cash on hand; raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in Note B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Management has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Washington County Hospital District No. 1 d/b/a Hanover Hospital basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements

and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Wendling Noel Nelson & Johnson LLC*

Topeka, Kansas  
June 15, 2018

FINANCIAL STATEMENTS

## WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1

D/B/A HANOVER HOSPITAL

## STATEMENTS OF NET POSITION

December 31,

## ASSETS

	2017		2016	
		(Unaudited) Component		(Unaudited) Component
	<u>Hospital</u>	<u>unit</u>	<u>Hospital</u>	<u>unit</u>
CURRENT ASSETS				
Cash	\$ 153,894	\$ 61,435	\$ 133,792	\$ 25,655
Patient accounts receivable, net of allowance for uncollectible accounts of \$399,100 in 2017 and \$509,000 in 2016	587,663		589,630	
Estimated third-party payor settlements			140,227	
Property taxes receivable	85,559		83,662	
Inventories	161,974		137,089	
Prepaid expenses	34,522		13,151	
Total current assets	<u>1,023,612</u>	<u>61,435</u>	<u>1,097,551</u>	<u>25,655</u>
ASSETS LIMITED AS TO USE				
Board-designated assets	<u>35,801</u>		<u>10,960</u>	
CAPITAL ASSETS - NET	<u>374,295</u>		<u>358,563</u>	
TOTAL ASSETS	<u>\$1,433,708</u>	<u>\$ 61,435</u>	<u>\$1,467,074</u>	<u>\$ 25,655</u>

The accompanying notes are an integral part of these statements.



LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	2017		2016	
		(Unaudited) Component		(Unaudited) Component
	<u>Hospital</u>	<u>unit</u>	<u>Hospital</u>	<u>unit</u>
CURRENT LIABILITIES				
Current maturities of long-term obligations	\$ 62,374	\$ -	\$ 45,000	\$ -
Accounts payable	190,204		228,681	
Accrued salaries, wages, and benefits	205,617		204,040	
Accrued vacation pay	112,368		93,537	
Estimated third-party payor settlements	122,813			
Total current liabilities	693,376		571,258	
LONG-TERM OBLIGATIONS, less current maturities				
	47,416		55,000	
Total liabilities	740,792	-	626,258	-
DEFERRED INFLOWS OF RESOURCES				
Deferred property tax revenue	85,559		83,662	
Total deferred inflows of resources	85,559	-	83,662	-
NET POSITION				
Net investment in capital assets	319,504		358,563	
Unrestricted	287,853	61,435	398,591	25,655
Total net position	607,357	61,435	757,154	25,655
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$1,433,708</u>	<u>\$ 61,435</u>	<u>\$1,467,074</u>	<u>\$ 25,655</u>



WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1  
D/B/A HANOVER HOSPITAL  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
Year ended December 31,

	2017		2016	
	<u>Hospital</u>	(Unaudited) Component <u>unit</u>	<u>Hospital</u>	(Unaudited) Component <u>unit</u>
Operating revenues				
Net patient service revenue	\$3,688,915	\$ -	\$3,498,716	\$ -
Ambulance subsidy	35,556		33,540	
Total operating revenues	<u>3,724,471</u>	<u>-</u>	<u>3,532,256</u>	<u>-</u>
Operating expenses				
Salaries and wages	2,120,778		2,148,933	
Employee benefits	424,126		443,899	
Supplies and other	1,389,408	2,460	1,212,920	103,500
Depreciation and amortization	65,255		88,421	
Total operating expenses	<u>3,999,567</u>	<u>2,460</u>	<u>3,894,173</u>	<u>103,500</u>
Operating loss	<u>(275,096)</u>	<u>(2,460)</u>	<u>(361,917)</u>	<u>(103,500)</u>
Nonoperating revenues (expenses)				
Property taxes	91,676		88,465	
Noncapital contributions and grants	16,651	38,160	117,066	111,033
Investment income	879	80	311	24
Interest expense	(4,596)		(290)	
Other	20,689		14,881	
Nonoperating revenues (expenses)	<u>125,299</u>	<u>38,240</u>	<u>220,433</u>	<u>111,057</u>
Change in net position	(149,797)	35,780	(141,484)	7,557
Net position at beginning of year	<u>757,154</u>	<u>25,655</u>	<u>898,638</u>	<u>18,098</u>
Net position at end of year	<u>\$ 607,357</u>	<u>\$ 61,435</u>	<u>\$ 757,154</u>	<u>\$ 25,655</u>

The accompanying notes are an integral part of these statements.

WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1

D/B/A HANOVER HOSPITAL

STATEMENTS OF CASH FLOWS

Year ended December 31,

	2017		2016	
	Hospital	(Unaudited) Component unit	Hospital	(Unaudited) Component unit
Cash flows from operating activities				
Receipts from and on behalf of patients	\$3,953,922	\$ -	\$3,335,516	\$ -
Payments to or on behalf of employees	(2,524,496)		(2,619,519)	
Payments to suppliers	(1,474,141)		(1,167,281)	
Other receipts and payments	35,556	(2,460)	33,540	(103,500)
Net cash used by operating activities	(9,159)	(2,460)	(417,744)	(103,500)
Cash flows from noncapital financing activities				
Property taxes	91,676		88,465	
Noncapital contributions and grants	16,651	38,160	117,066	111,033
Issuance of note payable			100,000	
Payments on note payable			(100,000)	
Issuance of loan payable			100,000	
Payments on loan payable	(45,000)			
Interest paid	(1,156)		(290)	
Other nonoperating receipts	20,689	80	14,881	24
Net cash provided by noncapital financing activities	82,860	38,240	320,122	111,057
Cash flows from capital and related financing activities				
Purchase of capital assets	(20,431)		(11,882)	
Payments on capital lease obligations	(5,766)			
Interest paid	(3,440)			
Net cash used by capital and related financing activities	(29,637)	-	(11,882)	-
Cash flows from investing activities				
Investment income	879		311	
Net cash provided by investing activities	879	-	311	-
Net change in cash	44,943	35,780	(109,193)	7,557
Cash at beginning of year	144,752	25,655	253,945	18,098
Cash at end of year	\$ 189,695	\$ 61,435	\$ 144,752	\$ 25,655

The accompanying notes are an integral part of these statements.

WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1

D/B/A HANOVER HOSPITAL

STATEMENTS OF CASH FLOWS - CONTINUED

Year ended December 31,

	2017		2016	
		(Unaudited)		(Unaudited)
	Hospital	Component unit	Hospital	Component unit
Reconciliation of cash				
Cash	\$ 153,894	\$ 61,435	\$ 133,792	\$ 25,655
Cash included in board-designated assets limited as to use	<u>35,801</u>	<u>          </u>	<u>10,960</u>	<u>          </u>
Total cash	<u>\$ 189,695</u>	<u>\$ 61,435</u>	<u>\$ 144,752</u>	<u>\$ 25,655</u>
Reconciliation of operating loss to net cash used by operating activities				
Operating loss	\$ (275,096)	\$ (2,460)	\$ (361,917)	\$ (103,500)
Adjustments to reconcile operating loss to net cash used by operating activities				
Depreciation and amortization	65,255		88,421	
Provision for bad debts, net	(17,374)		70,629	
Changes in				
Patient accounts receivable	19,341		(150,394)	
Estimated third-party payor settlements	263,040		(83,435)	
Inventories and prepaid expenses	(46,256)		6,284	
Accounts payable	(38,477)		39,355	
Accrued salaries and wages	1,577		2,617	
Accrued vacation pay	<u>18,831</u>	<u>          </u>	<u>(29,304)</u>	<u>          </u>
Net cash used by operating activities	<u>\$ (9,159)</u>	<u>\$ (2,460)</u>	<u>\$ (417,744)</u>	<u>\$ (103,500)</u>
Supplemental cash flows information				
Capital lease obligations incurred	<u>\$ 60,556</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.



WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1

D/B/A HANOVER HOSPITAL

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Reporting entity

Washington County Hospital District No. 1 d/b/a Hanover Hospital (the Hospital), is a political subdivision of the state of Kansas and is governed by a Board of Trustees. The Hospital provides acute inpatient, outpatient, and swing-bed services.

The component unit discussed in Note A2 is included in the Hospital's reporting entity because of the nature and significance of its relationship with the Hospital.

2. Component unit

The financial statements include the unaudited financial data of the discretely presented component unit described below. The component unit is reported separately to emphasize that it is legally separate from the Hospital.

Washington County Health Care Foundation (the Foundation), is a not-for-profit corporation formed in March of 1994 to develop support for the delivery of hospital services, health care, diagnosis and treatment, health related education, and to support efforts by the Hospital, the City of Hanover, or Washington County to recruit physicians to serve the community. The Foundation is administered by a Board of Directors. The Hospital does not appoint members to the Board of Directors.

3. Basis of accounting

The Hospital and its component unit use enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

4. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

5. Cash

The Hospital and its component unit consider all cash and invested cash to be cash for the statements of cash flows. This represents an accounting policy change since previously none of the cash included in assets limited as to use were considered to be cash for the statements of cash flows. Comparative financial statements of prior years have been restated to reflect this change. This restatement had no effect on previously reported net position or the change in net position of the Hospital.



WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1

D/B/A HANOVER HOSPITAL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

6. Property taxes

The Hospital receives financial support from property taxes. Property taxes are levied in November of each year and are received by the Hospital in the following year. Property tax revenue is recognized in full the year following the year that the taxes were levied, which is the year in which use is first permitted.

7. Patient accounts receivable

The Hospital provides for patient accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each type of payor.

8. Inventories

Inventories are stated at the lower of cost or market as determined on the first-in, first-out method.

9. Capital assets

Capital assets are stated at cost. Depreciation and amortization of capital assets is provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

10. Deferred inflows of resources

Deferred inflows of resources represent an acquisition of net position applicable to a future period and so will not be recognized as a revenue or gain until then.

11. Net position

Net position of the Hospital and its component unit is classified in two components. "Net investment in capital assets" consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Unrestricted net position" is the remaining net position that does not meet the definition of "net investment in capital assets."

WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1  
D/B/A HANOVER HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

12. Grants and contributions

From time to time, the Hospital receives grants and contributions from government agencies, private organizations, and individuals. Revenues from grants and contributions are recognized when all eligibility requirements, including any time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

13. Operating revenues and expenses

The statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

14. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, the provision for bad debts, and contractual adjustments, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

15. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code.

16. Subsequent events

The Hospital and its component unit have evaluated subsequent events through the date of the independent certified public accountants' report, which is the date the financial statements were available to be issued.



WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1  
D/B/A HANOVER HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE B - REALIZATION OF ASSETS

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Hospital as a going concern. The Hospital incurred operating losses of \$275,096 and \$361,917 during the years ended December 31, 2017 and 2016, respectively. Total net position decreased by \$149,797 and \$141,484 during 2017 and 2016, respectively. The Hospital's liquidity position remains challenging with days cash on hand at 18 days at December 31, 2017.

In view of the matter described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying statement of net position is dependent upon continued operations of the Hospital which, in turn, is dependent upon the Hospital's ability to meet its financing requirements on a continuing basis, to maintain present financing, and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability of recorded asset amounts or amounts and classifications of liabilities that might be necessary should the Hospital be unable to continue in existence.

The Hospital administration recognizes the issues with accumulating ongoing decreases in net position. Immediate plans include:

- Implementing a new computer system that will improve the Hospital's charting and billing processes.
- Fundraising by the Foundation to be used for capital needs and operations of the Hospital.
- Increased cash flow is expected from the decrease in the Medicare swing-bed nursing facility carve out rate in 2018, which results in higher allowable costs for reimbursement from Medicare.
- Adding additional revenue by providing CAT scan services at the hospital beginning in 2018.

Management believes that the actions taken will enable the Hospital to generate sufficient cash flows to sustain operations.

NOTE C - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statements of net position as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Hospital is a critical access hospital for purposes of the Medicare program and is paid for services rendered to Medicare beneficiaries under various cost reimbursement methodologies. The Hospital is paid for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare



WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1  
D/B/A HANOVER HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE C - NET PATIENT SERVICE REVENUE - Continued

program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2016.

Medicaid - Hospital services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Nursing facility services are paid at prospectively determined per diem rates set annually on the basis of cost information from preceding calendar years.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

A summary of gross and net patient service revenue follows:

	<u>2017</u>	<u>2016</u>
Gross patient service revenue	\$4,986,065	\$4,400,616
Contractual adjustments	(1,314,524)	(831,271)
Provision for/recovery of bad debts	<u>17,374</u>	<u>(70,629)</u>
Net patient service revenue	<u>\$3,688,915</u>	<u>\$3,498,716</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 59 percent and 4 percent, and 61 percent and 7 percent of the Hospital's net patient service revenue during 2017 and 2016, respectively. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

NOTE D - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

The Hospital accrues interest finance charges on patient accounts receivable sent to collections. The annual interest rate of 10 percent is applied on a monthly, prorated basis. Interest amounts are included in patient accounts receivable, but are taken into consideration in the calculation of the allowance for uncollectible accounts. The Hospital's allowance for doubtful accounts was 96 percent and 94 percent of self-pay accounts receivable at June 30, 2017 and June 30, 2016, respectively. The Hospital's net bad debt write-offs were \$119,355 and \$1,953 for the years ended June 30, 2017 and June 30, 2016, respectively.



WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1  
D/B/A HANOVER HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE E - ASSETS LIMITED AS TO USE

Assets limited as to use consist of assets designated by the Board of Trustees to be used for the operating expenditures and capital asset replacement or acquisition for ambulance services. These assets may be used for other purposes at the discretion of the Board of Trustees and were invested in cash at December 31, 2017 and 2016.

NOTE F - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, the State Treasurer's municipal investment pool, and U.S. Treasury bills and notes. Kansas statutes also require that collateral be pledged for bank deposits with a fair market value equal to 100 percent of the uninsured amounts and must be assigned for the benefit of the Hospital.

At December 31, 2017, the carrying amount of the Hospital's bank deposits was \$189,675 and the bank balances were \$181,378. Of the bank balances, the entire amount was covered by federal depository insurance.

The Hospital's bank deposits are included in the Hospital's financial statements under the following categories:

Cash	\$ 153,874
Assets limited as to use	
Board-designated assets	<u>35,801</u>
Total bank deposits	<u>\$ 189,675</u>

WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1  
D/B/A HANOVER HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE G - CAPITAL ASSETS

Capital asset additions, retirements, and balances are as follows:

	2017			
	<u>Beginning balance</u>	<u>Additions/ transfers</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 14,229	\$ -	\$ -	\$ 14,229
Land improvements	33,945			33,945
Buildings	1,176,676			1,176,676
Fixed equipment	608,789	14,145		622,934
Major movable equipment	1,165,073	61,657	39,451	1,187,279
Totals at historical cost	2,998,712	75,802	39,451	3,035,063
Less accumulated depreciation				
Land improvements	30,326	708		31,034
Buildings	1,011,919	18,276		1,030,195
Fixed equipment	481,742	22,500		504,242
Major movable equipment	1,119,044	23,771	39,451	1,103,364
	2,643,031	65,255	39,451	2,668,835
	355,681	10,547	-	366,228
Construction in progress	2,882	5,185		8,067
Capital assets, net	<u>\$ 358,563</u>	<u>\$ 15,732</u>	<u>\$ -</u>	<u>\$ 374,295</u>

	2016			
	<u>Beginning balance</u>	<u>Additions/ transfers</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 14,229	\$ -	\$ -	\$ 14,229
Land improvements	33,945			33,945
Buildings	1,176,676			1,176,676
Fixed equipment	608,789			608,789
Major movable equipment	1,156,073	9,000		1,165,073
Totals at historical cost	2,989,712	9,000	-	2,998,712
Less accumulated depreciation				
Land improvements	29,619	707		30,326
Buildings	993,318	18,601		1,011,919
Fixed equipment	440,481	41,261		481,742
Major movable equipment	1,091,192	27,852		1,119,044
	2,554,610	88,421	-	2,643,031
	435,102	(79,421)	-	355,681
Construciton in progress		2,882		2,882
Capital assets, net	<u>\$ 435,102</u>	<u>\$ (76,539)</u>	<u>\$ -</u>	<u>\$ 358,563</u>

WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1  
D/B/A HANOVER HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE H - LONG-TERM OBLIGATIONS

Long-term obligations are summarized as follows:

	<u>2017</u>	<u>2016</u>
Noninterest bearing loan from an individual in the original amount of \$100,000; due in equal monthly payments of \$5,000, ending November 2018	\$ 55,000	\$ 100,000
Capital lease obligation, imputed interest rate of 6.95%, collateralized by leased equipment with an amortized cost of \$55,491 at December 31, 2017	<u>54,790</u>	
	109,790	100,000
Less current maturities	<u>62,374</u>	<u>45,000</u>
Long-term obligations, excluding current maturities	<u>\$ 47,416</u>	<u>\$ 55,000</u>

The following is a summary of changes in long-term obligations:

Outstanding at January 1, 2016	\$ -
Proceeds from promissory note payable to bank	100,000
Principal payments on promissory note payable to bank	(100,000)
Proceeds from loan payable	<u>100,000</u>
Outstanding at December 31, 2016	100,000
Capital lease obligation incurred	60,556
Principal payments on loan payable	(45,000)
Principal payments on capital lease obligation	<u>(5,766)</u>
Outstanding at December 31, 2017	<u>\$ 109,790</u>

On July 19, 2016, the Hospital signed a promissory note to borrow \$100,000 from a local bank. The note was at an interest rate of 4.9 percent with principal and interest due upon maturity on November 1, 2016. Upon maturity, the note principal and interest was paid off by the Chief Medical Officer of the Hospital. The Hospital and the Chief Medical Officer entered into a verbal agreement for the repayment of the \$100,000 loan with no interest. The repayment of the loan will be made in 20 equal installments of \$5,000 each from April 2017 through November 2018.

Scheduled annual debt service requirements on the loan payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 55,000	\$ -	\$ 55,000
	<u>\$ 55,000</u>	<u>\$ -</u>	<u>\$ 55,000</u>



WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1  
D/B/A HANOVER HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE H - LONG-TERM OBLIGATIONS - Continued

The following is a yearly schedule of future minimum lease payments under capital leases as of December 31, 2017:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 7,374	\$ 3,576	\$ 10,950
2019	7,903	3,047	10,950
2020	8,470	2,480	10,950
2021	9,078	1,872	10,950
2022	9,729	1,221	10,950
2023-2024	12,236	538	12,774
	<u>\$ 54,790</u>	<u>\$ 12,734</u>	<u>\$ 67,524</u>

NOTE I - CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2017</u>	<u>2016</u>
Medicare	43%	26%
Medicaid	3	4
Blue Cross	5	5
Other third-party payors	15	19
Patients	<u>34</u>	<u>46</u>
	<u>100%</u>	<u>100%</u>

NOTE J - RELATED PARTY TRANSACTIONS

During 2017 and 2016, the Hospital received \$2,460 and \$103,500 from the Foundation for the funding of general operations, respectively.

The Hospital purchases pharmaceuticals from a local pharmacy that is owned by a member of the Hospital's Board of Trustees. In addition, the board member provides pharmacy services to the Hospital. Approximately \$231,000 and \$209,000 was recognized as expense related to these goods and services during 2017 and 2016, respectively.



WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1  
D/B/A HANOVER HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE K - RISK MANAGEMENT

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$300,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$900,000. All coverage is on a claims-made basis. The above policies have been renewed through October 15, 2018. The Hospital intends to renew this coverage on that date and is aware of no reason why such coverage would be denied at that time.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE L - SUBSEQUENT EVENTS

The Hospital obtained Rural Health Clinic (RHC) status for the independent clinic attached to the Hospital facility with an effective accreditation date of December 8, 2017. Ownership of the clinic was transferred to the Hospital in 2018.

The Hospital intends to issue \$2,200,000 in general obligation bonds for the purpose of improving, furnishing, and equipping the Hospital's facilities. On May 15, 2018, a vote was held in the Hospital's taxing district approving the issue.

NOTE M - COMMITMENTS AND CONTINGENCIES

The Hospital purchases professional and general liability insurance to cover medical malpractice and other liability claims (see Note J). No accrual for possible losses attributable to incidents that may have occurred but that have not been identified under the Hospital's incident reporting system has been made because the amount is not reasonably estimatable. Based on historical experience and present conditions, it is the opinion of management that any claims or expenses for unasserted claims related to periods prior to December 31, 2017, will have no material effect on the financial statements of the Hospital.

In June 2017, the Hospital entered into a six-year lease agreement for a CT scanner. Total cost of the CT scanner is approximately \$362,500, and lease payments during the lease terms will be \$5,865 per month. The lease interest rate is 5.16 percent. The lease agreement will be accounted for as a capital lease. The CT scanner is expected to be installed during 2018.

WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1  
D/B/A HANOVER HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE M - COMMITMENTS AND CONTINGENCIES - Continued

In September 2017, the Hospital signed an agreement for the installation of a cloud based patient accounting and electronic medical records system. The agreement calls for a \$20,000 onboarding fee, no fees during the first three months after the "Go-Live Date," and 6.44 percent of monthly collections beginning in the fourth month. In the month following the "Go-Live Date," a \$20,000 credit will be issued. This is a one-year agreement and will automatically extend for additional consecutive one-year terms unless terminated by either party. The "Go-Live Date" is May 1, 2018.

SUPPLEMENTARY INFORMATION

WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1  
D/B/A HANOVER HOSPITAL  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCE - BUDGET AND ACTUAL - BUDGETARY BASIS  
OPERATION AND MAINTENANCE FUND  
Year ended December 31, 2017

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual amounts budgetary basis</u>	<u>Variance with final budget positive (negative)</u>
Revenues				
Net patient service revenue	\$3,514,457	\$3,514,457	\$3,688,915	\$ 174,458
Taxes	95,403	95,403	91,676	(3,727)
Other	<u>339,808</u>	<u>339,808</u>	<u>73,775</u>	<u>(266,033)</u>
Total revenues	<u>3,949,668</u>	<u>3,949,668</u>	<u>3,854,366</u>	<u>(95,302)</u>
Expenditures				
Salaries and wages	2,240,157	2,240,157	2,120,778	119,379
Employee benefits	407,200	407,200	424,126	(16,926)
Supplies and other	1,329,423	1,329,423	1,390,563	(61,140)
Capital outlay	<u>60,000</u>	<u>60,000</u>	<u>29,637</u>	<u>30,363</u>
Total expenditures	<u>4,036,780</u>	<u>4,036,780</u>	<u>3,965,104</u>	<u>71,676</u>
Revenue over (under) expenditures	(87,112)	(87,112)	(110,738)	(23,626)
Fund balance, beginning of year	<u>284,914</u>	<u>284,914</u>	<u>398,591</u>	<u>113,677</u>
Fund balance, end of year	<u>\$ 197,802</u>	<u>\$ 197,802</u>	<u>\$ 287,853</u>	<u>\$ 90,051</u>



## WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1

D/B/A HANOVER HOSPITAL

## SCHEDULE OF PATIENT SERVICE REVENUE

Year ended December 31, 2017

	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Routine service - acute	\$ 165,350	\$ -	\$ 165,350
Swing-bed - skilled	309,147		309,147
Swing-bed - intermediate care	969,510		969,510
Observation	1,470	243,295	244,765
Nursery			
Operating room	4,052	95,862	99,914
Anesthesiology	300	13,117	13,417
Radiology	20,243	105,529	125,772
Laboratory	165,094	156,381	321,475
Physical therapy	166,317	262,983	429,300
Speech therapy	4,592	1,251	5,843
Occupational therapy	62,210	15,309	77,519
Electrocardiology	1,430	5,070	6,500
Medical supplies	366,813	249,957	616,770
Pharmacy	532,646	785,761	1,318,407
Cardiac rehabilitation		47,775	47,775
Emergency room	1,850	114,020	115,870
Ambulance		91,744	91,744
Pulmonology	604	26,293	26,897
OP professional fees		90	90
Gross patient service revenue	<u>\$2,771,628</u>	<u>\$2,214,437</u>	4,986,065
Contractual adjustments			(1,314,524)
Provision for bad debts, net			<u>17,374</u>
Net patient service revenue			<u>\$3,688,915</u>

## WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1

D/B/A HANOVER HOSPITAL

## SCHEDULE OF PATIENT SERVICE REVENUE

Year ended December 31, 2016

	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Routine service - acute	\$ 156,450	\$ -	\$ 156,450
Swing-bed - skilled	232,250		232,250
Swing-bed - intermediate care	967,470		967,470
Observation	4,380	113,590	117,970
Nursery	3,600		3,600
Operating room	8,466	88,920	97,386
Anesthesiology	4,575	6,450	11,025
Radiology	11,555	97,592	109,147
Laboratory	178,182	169,714	347,896
Physical therapy	124,965	268,160	393,125
Speech therapy		4,240	4,240
Occupational therapy	18,626	36,627	55,253
Electrocardiology	715	2,470	3,185
Medical supplies	286,620	138,232	424,852
Pharmacy	565,530	688,740	1,254,270
Cardiac rehabilitation		16,990	16,990
Emergency room	1,150	136,965	138,115
Ambulance	934	66,098	67,032
OP professional fees		360	360
Gross patient service revenue	<u>\$2,565,468</u>	<u>\$1,835,148</u>	4,400,616
Contractual adjustments			(831,271)
Provision for bad debts, net			<u>(70,629)</u>
Net patient service revenue			<u>\$ 3,498,716</u>

WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1  
D/B/A HANOVER HOSPITAL  
SCHEDULE OF OPERATING EXPENSES BY FUNCTIONAL DIVISION  
Year ended December 31, 2017

<u>Department</u>	<u>Salaries and wages</u>	<u>Employee benefits, supplies, and other</u>	<u>Depreciation and amortization</u>	<u>Total</u>	<u>Percent of total operating expenses</u>
Routine service					
Adult and pediatrics	\$ 938,999	\$ 34,884	\$ -	\$ 973,883	24.35 %
Nursery	383			383	0.01
	<u>939,382</u>	<u>34,884</u>	<u>-</u>	<u>974,266</u>	<u>24.36</u>
Ancillary services					
Operating room	45,483	11,664		57,147	1.43
Delivery room	465			465	0.01
Radiology	2,973	33,834		36,807	0.92
Laboratory	99,010	129,671		228,681	5.72
Physical therapy		281,456		281,456	7.04
Speech therapy		4,481		4,481	0.11
Occupational therapy		49,128		49,128	1.23
Electrocardiology	313			313	0.01
Medical supplies	23,079	52,399		75,478	1.89
Pharmacy	36,453	228,108		264,561	6.61
Cardiac rehabilitation	16,485			16,485	0.41
Emergency room	322,171	106,863		429,034	10.73
Ambulance	40,503	12,966		53,469	1.34
	<u>586,935</u>	<u>910,570</u>	<u>-</u>	<u>1,497,505</u>	<u>37.45</u>
General services					
Nursing administration	110,187			110,187	2.75
Operation of plant	73,591	93,579		167,170	4.18
Laundry	25,586	5,239		30,825	0.77
Housekeeping	41,036	9,157		50,193	1.25
Dietary	118,681	88,398		207,079	5.18
Medical records	17,732	197		17,929	0.45
Administration and general	207,648	247,384		455,032	11.38
Employee benefits		424,126		424,126	10.60
Depreciation - building and fixed equipment			41,484	41,484	1.04
Depreciation - major movable equipment			23,771	23,771	0.59
	<u>594,461</u>	<u>868,080</u>	<u>65,255</u>	<u>1,527,796</u>	<u>38.19</u>
	<u>\$2,120,778</u>	<u>\$1,813,534</u>	<u>\$ 65,255</u>	<u>\$3,999,567</u>	<u>100.00 %</u>



## WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1

## D/B/A HANOVER HOSPITAL

## SCHEDULE OF OPERATING EXPENSES BY FUNCTIONAL DIVISION

Year ended December 31, 2016

<u>Department</u>	<u>Salaries and wages</u>	<u>Employee benefits, supplies, and other</u>	<u>Depreciation and amortization</u>	<u>Total</u>	<u>Percent of total operating expenses</u>
Routine service					
Adult and pediatrics	\$ 908,477	\$ 51,821	\$ -	\$ 960,298	24.66 %
Nursery	498			498	0.01
	<u>908,975</u>	<u>51,821</u>	<u>-</u>	<u>960,796</u>	<u>24.67</u>
Ancillary services					
Operating room	43,655	12,404		56,059	1.44
Delivery room	1,575	8		1,583	0.04
Radiology	3,199	46,937		50,136	1.29
Laboratory	88,756	137,246		226,002	5.80
Physical therapy		258,217		258,217	6.63
Speech therapy		2,785		2,785	0.07
Occupational therapy		35,914		35,914	0.92
Electrocardiology	1,323			1,323	0.03
Medical supplies	21,150	59,131		80,281	2.06
Pharmacy	39,202	165,994		205,196	5.27
Cardiac rehabilitation	12,138			12,138	0.31
Emergency room	375,548	38,323		413,871	10.63
Ambulance	41,219	11,349		52,568	1.35
	<u>627,765</u>	<u>768,308</u>	<u>-</u>	<u>1,396,073</u>	<u>35.85</u>
General services					
Nursing administration	117,292			117,292	3.01
Operation of plant	77,263	104,889		182,152	4.68
Laundry	31,845	7,987		39,832	1.02
Housekeeping	45,747	10,621		56,368	1.45
Dietary	117,179	81,632		198,811	5.11
Medical records	13,348	759		14,107	0.36
Administration and general	209,519	186,903		396,422	10.18
Employee benefits		443,899		443,899	11.40
Depreciation - building and fixed equipment			60,569	60,569	1.56
Depreciation - major movable equipment			27,852	27,852	0.72
	<u>612,193</u>	<u>836,690</u>	<u>88,421</u>	<u>1,537,304</u>	<u>39.48</u>
	<u>\$2,148,933</u>	<u>\$1,656,819</u>	<u>\$ 88,421</u>	<u>\$3,894,173</u>	<u>100.00 %</u>